Summary note of the Accounting Standards Advisory Forum

Held on 11–12 July 2022.

This note is prepared by the staff of the International Accounting Standards Board (IASB) and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF). A full recording of the meeting is available on the IFRS® Foundation website.

Region	**Members**
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Asian-Oceanian Standard-Setters Group (AOSSG)* Accounting Standards Board of Japan (ASBJ) Accounting Regulatory Department, Ministry of Finance PRC (ARD)* Korea Accounting Standards Board (KASB)
Europe (including one at large)	European Financial Reporting Advisory Group (EFRAG)* Autorité des normes comptables (ANC) UK Endorsement Board (UKEB) Accounting Standards Committee of Germany (ASCG)
The Americas	Group of Latin American Accounting Standard Setters (GLASS) Canadian Accounting Standards Board (AcSB)* Financial Accounting Standards Board, United States (FASB)

* Remote participation via videoconference

Goodwill and Impairment

1. The objective of this session was to seek ASAF members' advice on two possible alternatives to respond to stakeholders' concerns on the IASB's preliminary views in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment.* These possible alternatives were:

   (a) to require an entity to disclose information for only a subset of business combinations (paragraphs 2–6); and

   (b) to exempt an entity from disclosing particular information in specific circumstances (paragraphs 7–14).

Requiring information for only a subset of business combinations

2. The AcSB, ANC, AOSSG, ASBJ, ASCG, GLASS, KASB and PAFA members agreed with the alternative to require an entity to disclose information for only a subset of business combinations. However, the AOSSG member reported that some AOSSG jurisdictions said this alternative, even when combined with allowing disclosure exemptions in specific circumstances, would not sufficiently address preparers' concerns.

3. The EFRAG member said EFRAG stakeholders had mixed views on pursuing this alternative—users of financial statements welcomed the alternative while preparers said it could create complexity. Similarly, the UKEB member said the approach could be complex and could result in a dual materiality threshold.

4. ASAF members had mixed views on how to determine a subset of business combinations (for example, to determine the subset by applying a quantitative threshold, a qualitative threshold or a factor-based approach):

   (a) the ANC, ASBJ, ASCG, EFRAG and GLASS members said a qualitative threshold would be more conceptually sound and compatible with a management approach than a quantitative threshold. The ASCG and EFRAG members suggested basing the subset on the business combinations the Chief Operating Decision Maker reviews.

   (b) the ANC member said there is a precedent in IFRS Accounting Standards—for example, IFRS 8 *Operating Segments*—for setting a quantitative approach, even though there is no conceptual basis on this approach.

However, the PAFA and UKEB members said setting a quantitative threshold would result in a bright line that would not be aligned with principle-based accounting standards. The ASCG member also disagreed in setting a quantitative approach and said it would be difficult to identify an appropriate quantitative threshold.

(c) the ARD and UKEB members expressed concerns about determining the subset by applying a factor-based approach. The ARD member said it would not be feasible to have a comprehensive list of factors that encompasses the unique circumstances of business combinations in different jurisdictions. The UKEB member said there were challenges in applying a similar approach to identify investment entities, as required by IFRS 10 *Consolidated Financial Statements*. The ASBJ member suggested requiring entities to consider possible future developments when determining whether a business combination should be included in the subset applying a factor-based approach.

(d) the AcSB, ANC, AOSSG, ARD, EFRAG, KASB and PAFA members suggested combining qualitative and quantitative thresholds:

   (i) the AcSB member said doing so could help capture quantitatively small but strategically important business combinations.

   (ii) the PAFA member said quantitatively material business combinations are likely also to be qualitatively material, but not necessarily the other way around. The member suggested placing greater weight on qualitative factors.

   (iii) the KASB member suggested a two-step approach—an entity should first apply a quantitative threshold and disclose information for business combinations that meet that threshold. For business combinations that do not meet the quantitative threshold, an entity would then assess whether any of those business combinations are qualitatively important and, if so, be required to disclose information for those business combinations.

(e) the FASB member suggested clarifying the objective of screening out particular business combinations.

5. On the appropriate quantitative thresholds:

   (a) the ASBJ member said setting the threshold at 5% would result in entities disclosing information for too many business combinations.

   (b) the AOSSG member said users suggested requiring the information only for business combinations that increase an entity's assets by more than 10% or total revenue by more than 5%. However, the member also reported that preparers said business combinations captured by these thresholds were not likely to represent a significant change to their businesses.

   (c) the AcSB member said that, in order to comply with regulatory requirements, entities in Canada already provide much of the information on business combinations. Entities are required to provide a Business Acquisition Report if two out of three quantitative thresholds are met, being 30% of total assets, investments in the entity and total profit or loss.

   (d) the ARD member said stakeholders suggested having multiple criteria (for example, total assets, revenue, net profit and net assets) and the criteria applied should depend on the stage the entity is at in its life cycle.

6. ASAF members suggested factors to consider when setting a qualitative threshold or developing a factor-based approach (for example, the strategic rationale and if material synergies, a change in management, reconstruction of the entity's value chain or entering a new industry are expected).

Disclosure exemption in specific circumstances

7. ASAF members generally agreed that a disclosure exemption would help to address circumstances in which the required information would be commercially sensitive. However, the AcSB, ANC, AOSSG, FASB and UKEB members said it may be difficult to draft the disclosure exemption in a way that ensures the exemption is used in only appropriate circumstances. On an exemption:

   (a) the AcSB member said the exemption should not apply to information about the strategic rationale and expected synergies for a business combination;

   (b) the UKEB member said the exemption should not apply to any information that is already publicly available;

(c) the ANC member suggested that the term ‘commercially sensitive’ should be precisely defined;

(d) the ASBJ member suggested exempting entities from disclosing particular information if doing so would be likely to destroy corporate value in the long run; and

(e) the PAFA member asked how the commercial sensitivity concerns differed from concerns stakeholders raised about commercial sensitivity during the development of IFRS 8 *Operating Segments*, noting that the IASB decided not to exempt entities from disclosing information in IFRS 8.

8. The ANC and ARD members said a disclosure exemption should also address concerns about litigation risk arising from disclosing forward-looking information. The PAFA member said an exemption from disclosing forward-looking information that could lead to litigation might be a candidate for an exemption.

9. The ASBJ, FASB and PAFA members said it is unnecessary for a disclosure exemption to address integration concerns because entities would be required to disclose only information that is already available. The PAFA member said an entity should be required to disclose information about the subsequent performance of a business combination even after an acquired business has been integrated if the entity’s management continue to review that information. However:

(a) the AOSSG member said it would be helpful to provide an exemption for situations in which it would be impracticable to disclose the information; and

(b) the ARD member said stakeholders would welcome any disclosure exemption addressing integration concerns.

10. The ASCG member said a disclosure exemption should address all four practical concerns (commercial sensitivity, litigation risk arising from forward-looking information, integration and auditability). The member said evidence suggests that disclosure exemptions provided by IFRS 3 *Business Combinations*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and local German regulations work well in practice. The member said the IASB might consider applying

an approach similar to that adopted in Regulation (EU) No 575/2013, which does not allow entities to apply the disclosure exemption to particular information.

11. The KASB member said preparers in Korea supported an exemption but were sceptical whether they would be able to apply the exemption because any exemption would be subjective and could create tension with auditors and regulators. The member highlighted the need to be very specific about what is exempt from disclosure and the circumstances in which an entity can use the exemption. Similarly, the ARD member suggested providing application guidance and illustrative examples to help stakeholders understand and apply any exemption.

12. The ARD member also said that while most of ARD stakeholders supported introducing a disclosure exemption for commercially sensitive information, forward-looking information and integration, a few of ARD stakeholders said such an exemption could harm comparability among entities. However, the EFRAG member said the key objective of the disclosures is to assess management's stewardship and not comparability among entities.

13. ASAF members suggested specific items that the IASB could exempt an entity from disclosing, including the strategic rationale, objectives, the metrics used to monitor performance and quantitative information about expected synergies.

14. The ASCG and UKEB members disagreed with allowing an entity to apply an exemption only if a particular probability threshold for a potential negative consequence (for example, litigation risk) is met because:

    (a) it would be complex and subjective, according to the ASCG member; and

    (b) it would be unnecessary as the exemption in IAS 37 is very seriously considered when used, according to the UKEB member.

Other comments

15. ASAF members commented on other aspects of the disclosures:

    (a) the ASBJ and FASB members said the information that would be required by applying the preliminary views would be better placed in management commentary rather than in financial statements.

(b) the ASCG member suggested better articulating why additional disclosures would be required for business combinations but not for other types of capital-intensive transactions. The AOSSG member made a similar point and suggested holistically reviewing disclosures about organic growth.

Dynamic Risk Management (DRM)

16. The objective of this session was to seek views and comments on:

 (a) the progress of the DRM project, in particular on the recent refinements the IASB has made to the DRM model (paragraphs 17–23); and

 (b) whether equity should be eligible for designation in the DRM model (paragraphs 24–30).

Recent refinements to the DRM model

17. The AcSB, ANC, AOSSG, ARD, ASBJ, ASCG, GLASS, EFRAG and KASB members agreed with the project direction and the recent refinements the IASB has made to the DRM model.

18. On the IASB's tentative decision to require an entity to recognise the DRM adjustment as an asset or a liability in the statement of financial position, the ANC, AOSSG, ASBJ and FASB members said the IASB should be cautious because this decision involves departure from the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) on the definition of an asset or a liability.

19. In response to a question by the AcSB, AOSSG and FASB members, an IASB member said that, while the project starts from the interest rate risk management in the banking industry, the IASB may consider expanding the model to other industries in the future.

20. The ANC, EFRAG and AOSSG members highlighted the need for additional information on some aspects of the DRM model, and clarifications on how the model would be applied in practice (for example, the population of eligible underlying items that are included in the current net open risk position). The EFRAG member also highlighted the importance of field-testing the DRM model, and the need for sufficient lead time to do an effects analysis, given the complex nature of this subject.

21. The ARD member suggested the IASB consider:

(a) limiting the boundary of determining the risk mitigation intention in order to reduce inconsistent application in practice; and

(b) carrying out more research and outreach on specific methods used by banks on DRM to ensure the operability of the refinements.

22. The UKEB member agreed with the project objective to account for the economic substance of dynamic risk management and suggested to carry out further outreach with smaller banks, which may have a different risk management strategy, to ensure the DRM model is sufficiently flexible for these banks. While acknowledging the value of introducing the element of risk mitigation intention, the member said there are concerns that *intentions* are often decided based on outcome rather than the actual approach taken for risk management. The member suggested the IASB reconsider the concept of 'intention', including how such intention can be supported and evidenced, to ensure it makes sense in the context of the risk management strategy, rather than using it as a way to achieve a particular outcome.

23. An IASB member said that, although the IASB may revisit the choice of words, the DRM model is so far reasonably ring-fenced. The IASB will continue to gather inputs from stakeholders as the DRM model is refined to increase the likelihood that when an exposure draft is published the model is considered viable and operable.

Designation of equity as an eligible item in the DRM model

24. The AcSB, ANC, AOSSG, ARD, ASCG, EFRAG, KASB and GLASS members said the DRM model should allow the inclusion of equity, if an entity manages it in a manner that is consistent with its risk-management strategy and practices. In the view of these members, equity forms part of the current net open risk positions an entity manages, and the inclusion would better reflect the reality of the risk management.

25. The EFRAG member said that the difference between debt and equity is an accounting convention and that risk managers focus on the behaviour of a liability and the expectation of cash flows rather than on accounting conventions. The member said it will be a step backwards if equity is not allowed for inclusion in the DRM model, considering the intention to reduce the 'proxy hedge'. The member also said some

EFRAG stakeholders suggested that equity should be eligible not only for interest rate risks but also currency risks.

26. The ARD member expressed concerns that inclusion of equity may increase the difficulty in practice or create an opportunity for earnings management and suggested to carry out more outreach and develop application guidance to support consistent application.

27. In contrast, the FASB and ASBJ members said equity should not be included as an eligible item in the DRM model because:

    (a) it is difficult to justify the existence of deemed interest rate risk from equity, given equity is the residual interest, according to the FASB member; and

    (b) although some financial institutions raise equity instruments that have characteristics similar to the debt instruments, the distinction between a liability and equity is important to calculate profit or loss, according to the ASBJ member.

28. The ANC member said that many entities consider equity as stable resources with a deemed fixed interest rate, and thus having interest rate risk exposure if such equity is used to fund some floating assets. As a result, banks try to identify the stable part of equity for DRM purposes, which can be any component of the equity. The EFRAG and ANC members said there are many different approaches adopted in practice to determine the extent of equity managed even within the same jurisdiction. They suggested that the IASB consider the report they published in 2016 based on some outreach in this area.

29. The AOSSG member commented that details about how equity is considered are important to ensure the DRM results are robust and auditable, especially when banks rely on internal assumptions and may have different views regarding the investment terms of capital in their models.

30. In terms of which equity components are deemed to have interest rate risk exposures:

    (a) the EFRAG member said components such as equity funding that have features of periodic cash flows should be considered, not other components such as revaluation reserves or foreign currency translation reserves;

(b) the AcSB member, on the other hand, listed common shares, retained earnings, limited recourse capital notes and preference shares as equity components that should be considered eligible for the DRM model;

(c) the ASCG member suggested that the decision should be based on the analysis of rights and obligations associated with particular payments or cash flows under each instrument; and

(d) the AOSSG and ARD members said they would welcome principle-based guidance rather than a specific list of equity components that would be eligible.

Post-implementation Review of IFRS 9—Classification and Measurement

31. The purpose of this session was to provide an overview of the feedback on the Post-implementation Review of IFRS 9—Classification and Measurement (PIR) and seek ASAF members' views on:

(a) the standard-setting project to make narrow-scope amendments to the requirements in IFRS 9 *Financial Instruments* for assessing a financial asset's contractual cash flow characteristics (that is, the 'solely payments of principal and interest' (SPPI) requirements) (paragraphs 32–37); and

(b) the prevalence and significance in ASAF members' jurisdictions of some issues raised during the PIR (paragraphs 38–43).

Contractual cash flow characteristics of financial assets

32. ASAF members overall agreed with the IASB's decision to clarify the general SPPI requirements in IFRS 9 and expect that the amendments would address the common application questions relating to financial assets with ESG-linked features and contractually linked instruments (CLIs):

(a) the AcSB member said:

(i) large financial institutions in Canada find the concepts of a 'basic lending arrangement' and 'SPPI' sound; and

(ii) it currently takes significant time and effort to assess the contractual cash flow characteristics of financial assets with ESG-linked features because there are diverse views on how such features are considered in terms of the elements of interest (for example, credit risk or a profit margin).

(b) the EFRAG member said there is no need to amend the fundamental SPPI principles in IFRS 9, according to EFRAG stakeholders.

(c) the KASB member suggested the IASB consider clarifying SPPI requirements more broadly, rather than focusing on ESG-linked features.

(d) the ASCG and UKEB members reported that their stakeholders welcomed additional guidance to classify financial assets with ESG-linked features given the increasing importance of these types of instruments in the market.

33. However, the ANC member expressed concerns that the clarifying amendments, based on the current circumstances in which ESG-linked features have a minimal impact on cash flows, may not be applicable in the future, since it would be difficult for the IASB to anticipate future developments.

34. On additional aspects for the IASB to consider, ASAF members suggested:

(a) including illustrative examples to support the consistent application of the requirements to financial assets with ESG-linked features;

(b) clarifying how to consider non-financial contingent events to assist entities in applying the SPPI requirements;

(c) clarifying the nature of ESG-linked features (that is, a profit margin, credit risk) and what it constitutes (that is, ‘incentive’ or exposure to risk) as the ESG-linked market grows and consider the nature and volatility of the features;

(d) adopting a narrow description of the concept of a ‘basic lending arrangement’; and

(e) considering the probability of not meeting the ESG targets and not only the existence of the ESG targets themselves.

35. On the appropriateness of amortised cost versus fair value measurement for financial assets with ESG-linked features:

(a) the ANC and ASCG members expressed concerns about how to measure fair values of financial assets with ESG-linked features and said amortised cost might be a relevant measurement for those assets.

(b) the EFRAG and UKEB members said most financial assets with ESG-linked features are currently measured at amortised cost in their jurisdictions. The UKEB added that fair value through profit or loss measurement would not provide useful information for users because it is important for investors to receive information about the performance of these assets that is comparable to that of loans measured at amortised cost.

(c) the FASB member reported that some stakeholders in the US (where the concept of 'bifurcating embedded derivatives' is applied to the accounting for financial assets) said fair value is not relevant to measure the entire financial asset with ESG-linked features. The member added that it is challenging to determine whether the ESG-linked features are substantive or material from the perspectives of either issuers or holders.

36. On the proposed clarifying amendments relating to CLIs:

(a) the KASB member agreed with the objective to clarify the type of instruments to which the CLI requirements are applied, specifically whether the CLI requirements should be applied when the underlying pool includes non-financial items; and

(b) the EFRAG member said EFRAG agreed with the IASB staff's recommendation not to proceed with the clarifying amendments to the CLI requirements if this would delay the clarifications relating to financial assets with ESG-features.

37. The AcSB, EFRAG and UKEB members said there are questions about the application of the effective interest method to financial assets with ESG-linked features when the interest rates are adjusted based on the ESG targets.

Application issues

38. ASAF members commented on whether there is any widespread diversity in practice in their jurisdictions with regards to some application issues raised during the PIR.

39. On financial assets with contractual inflation adjustments creating leverage:

    (a) the GLASS member said these financial assets are common in Latin America; and

    (b) the UKEB said it is common practice to assume that linking interest to an inflation index without the use of a multiple does not create leverage and the principle should still be applicable regardless of the level of the inflation rate.

40. On financial assets with regulated interest rates creating leverage:

    (a) the EFRAG member said those financial instruments are not widespread in the EU, except for some jurisdictions such as Hungary; and

    (b) the GLASS member said financial assets indexed to government bond yields are widespread in Latin America, but are not considered regulated interest rates.

41. On derecognition requirements:

    (a) the AOSSG member said there is diversity in practice in Asia-Oceania and reported that some stakeholders said there are some challenges in applying the requirements such as the evaluation of the transfer of risks and rewards in paragraph 3.2.6 of IFRS 9 to factoring of receivables;

    (b) the ARD member said there are diverse views in practice on whether 10% thresholds described in paragraph B3.3.6 of IFRS 9 can be applied to determine whether a modification of a financial asset results in derecognition and suggested the IASB clarify the requirements;

    (c) the ASCG member said ASCG stakeholders reported some difficulties understanding the derecognition requirements, specifically relating to the assessment of continuing involvement, but there is no evidence for these issues being widespread in practice; and

(d) the EFRAG member said that, although there is diversity in practice on this issue, EFRAG does not consider this issue a priority for the IASB to address.

42. On contracts to buy or sell a non-financial item:

(a) the AOSSG and ARD members said it would be helpful if the IASB could clarify which IFRS Accounting Standard an entity should apply to these contracts (that is, IFRS 9 or IFRS 15 *Revenue from Contracts with Customers*);

(b) the ASBJ and ASCG members said there is diversity in practice on how to apply the requirements when there is a change in management's intention or how reliably to predict 'own-use'; and

(c) the EFRAG member said that, although there is diversity in practice on this issue, EFRAG does not consider this issue a priority for the IASB to address.

43. On transaction costs on equity instruments with OCI presentation

(a) the AOSSG member said there is diversity in practice in Asia-Oceania, which is not material, but the IASB could clarify the requirements by providing guidance;

(b) the EFRAG member said that there is diversity in practice in the EU, but the issue might be considered a matter of appropriate application of IFRS Accounting Standards, as the requirements of IFRS 9 appear clear; and

(c) the KASB member said there are diverse views and practice in Korea on how to account for transaction costs including the difference between the fair value and the consideration received on the disposal of equity instruments with OCI presentation (that is, whether to reflect these costs in OCI or profit or loss).

Financial Instruments with Characteristics of Equity (FICE)

44. The purpose of this session was to provide an update on the FICE project and to seek ASAF members' views on the IASB's tentative decisions on:

(a) the classification of financial instruments with contingent settlement provisions (paragraphs 45–63); and

(b) the effect of laws on the contractual terms (paragraph 64).

Classification of financial instruments with contingent settlement provisions

45. ASAF members generally agreed that the IASB's tentative decisions on the classification of financial instruments with contingent settlement provisions would resolve the main practice issues.

Order of applying the requirements

46. The UKEB and KASB members said the clarification around the order of applying the requirements in IAS 32 *Financial Instruments: Presentation* to compound financial instruments with contingent settlement provisions would be particularly beneficial and useful because there has been some disagreement in practice.

Measurement of the financial liability component at the full undiscounted amount

47. The UKEB member said measuring the financial liability component at the full amount would not have a major impact on entities in the UK because most of these entities do not take into account the probability of the contingent event occurring when measuring the contingently convertible financial instrument.

48. The EFRAG member agreed with the measurement simplification but said measuring the conditional obligation at the nominal amount is rules-based, in conflict with initial measurement at fair value, and could lead to structuring opportunities.

49. The AcSB, AOSSG and KASB members disagreed that the liability component should be measured at the full undiscounted amount. They questioned whether IAS 32 should discuss measurement because it is an IFRS Accounting Standard about classification and presentation. They also said:

(a) the analogy to the fair value of a financial liability with a demand feature may not be appropriate because a demand feature is a condition under the control of the holder, whereas contingent settlement provisions are conditions beyond the control of both the holder and the issuer; and

(b) considering the probability of those conditions would be an important factor in the measurement of the financial instrument and reflects the economics and substance of the financial instrument.

50. The AOSSG member suggested the IASB test the tentative decisions on contingently redeemable convertible preference shares issued in pre-IPO funding transactions. The member said measurement of the entire instrument at fair value through profit or loss could be justified to reduce the complexity. The member questioned how to determine the full amount of the obligation if there are multiple contingent events that have different redemption amounts and timing.

51. The ANC and AOSSG members highlighted concerns about accounting for day 1 losses when the liability is measured at the full amount which differs from the proceeds received and that stakeholders might find it difficult to understand why the difference is recognised in equity and remains permanently in equity.

Discretionary payments recognised in equity

52. The KASB member agreed with the IASB's tentative decision that payments at the discretion of the issuer are recognised in equity, even if all the proceeds are initially allocated to the liability component of a compound financial instrument.

53. The AOSSG, EFRAG and UKEB members said recognising discretionary payments in equity might lead to a change in accounting practice in their jurisdictions because some entities account for discretionary payments as expenses when all the proceeds are allocated to the financial liability. Concerns were raised that the proposed clarification would affect hedge accounting for these instruments and create a mismatch between the statement of financial position and the statement of profit and loss which could be confusing to users.

54. The FASB member questioned the benefit to users of treating dividends as equity when there is no equity component on initial recognition. The member highlighted a consequence on the earning per share calculation because the discretionary payment would reduce earnings available to common shareholders. The member suggested the payments could be viewed as discretionary interest to a liability holder and only accounted for when declared.

55. The GLASS member disagreed with recognising the discretionary dividends in equity and said the dividends should be recognised in equity only once the trigger is activated and there is conversion into shares.

56. The PAFA member said that, if the payments are discretionary, they should not be accrued in the measurement of the financial liability.

Liquidation is the process of permanently ceasing operations

57. The EFRAG member said the IASB should clearly explain the meaning of 'process of permanently ceasing operations' because different jurisdictions have different requirements for the liquidation process and the meaning of liquidation for accounting and legal purposes could differ.

58. The ANC member welcomed the proposed clarification and said it was aligned with the understanding of liquidation in France and the definition of liquidation in the French legal environment.

59. The PAFA member said the clarification would be helpful and bring some certainty about what is considered to be a liquidation process.

Non-genuine is not just a probability assessment

60. The EFRAG member agreed that the threshold for non-genuine should be high and said it should be assumed that there is a reason for including something in the contract.

61. The PAFA member said the clarification will be easier to apply in practice as there have been concerns about assessing the probability of occurrence.

62. The AOSSG and ARD members said examples of what is non-genuine would be helpful to make the understanding of non-genuine clearer. However, the clarification could imply that a feature was non-genuine even if the probability is considerable, according to the AOSSG member.

63. The ANC member questioned whether the clarification would remove the ambiguity around the meaning of non-genuine. The member agreed that, if a provision is included in the contract for a genuine reason, for example, for regulatory or tax purposes, it should be considered when classifying a financial instrument irrespective of the likelihood of its occurrence. The member suggested expanding the clarification

or introducing a rebuttable presumption in IAS 32 so that a provision in a contract is presumed to be genuine unless there is evidence to demonstrate the contrary.

Effects of laws on the contractual terms

64. ASAF members generally disagreed with the IASB's tentative decisions on the effects of laws on the contractual terms because they were concerned that similar rights and obligations would be accounted for differently, depending on whether they were derived from the law or contract, and depending on the specific law in a jurisdiction:

    (a) the ASBJ and ASCG members questioned the difference between a contractual term and a legal term because they see them both as part of an enforceable framework. These members were concerned about comparability and structuring opportunities if economically similar transactions are accounted for differently based on whether a term is solely derived from the contract.

    (b) the EFRAG member said the combination of both contractual and legal regulations was necessary to understand the contract. The member said classification applying IAS 32 based solely on the contractual terms may lead to outcomes that contradict the principle-based nature of IFRS Accounting Standards. However, the member acknowledged that taking into account the full context of the law and contract would be beyond the scope of the FICE project.

    (c) the FASB member pointed out that lawmakers could add to or nullify laws and said if institutions petition lawmakers to change laws this could result in financial instruments that would otherwise be classified as financial liabilities becoming equity. The member suggested the IASB include a discussion in the basis for conclusions on the forthcoming exposure draft of how the distinction between a financial liability and equity in IAS 32 differs from that in the *Conceptual Framework*.

    (d) the GLASS member suggested clarifying that the financial effects arising from applicable law be considered in the classification.

    (e) the AOSSG member said the proposed framework is complex and may create artificial distinctions and unintended outcomes. The member suggested the tentative decision be tested across a number of instruments in different jurisdictions. The member said there should be consistency between laws creating obligations and those preventing obligations and that it would be challenging for entities to keep track of all laws that could affect the classification. The member also said paragraph 15 of IAS 32 and paragraph 4.60 of the *Conceptual Framework* already address this issue and the clarification would be a departure from those requirements. The member also highlighted that the requirements in IAS 37 should be considered if the laws are not reflected in the classification of the financial instruments.

(f) the AOSSG and KASB members said the tentative decision is inconsistent with the requirements in IFRS 15 that require applicable laws to be considered when evaluating whether an entity has an enforceable right to payment.

(g) the ANC member:

   (i) cautioned against bringing all the laws into the classification, noting that there would be unintended consequences because IFRS 9 is a contractual-based Standard; and

   (ii) agreed that the IASB's tentative decisions are consistent with the scope of the FICE project, which is to solve application issues without modifying the underlying fundamental principles.

(h) the ARD member said stakeholders were concerned that the tentative decision is inconsistent with current accounting principles, and, as a result, the classification cannot fully reflect all the rights and obligations undertaken by the issuers.

Disclosure Initiative: Targeted Standards-level Review of Disclosures

65. The purpose of this session was to seek advice from ASAF members on the possible courses of action and the next steps in response to the feedback on the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*.

Analysis of possible courses of action

66. The ANC, ARD, ASCG, EFRAG, GLASS and UKEB members suggested the IASB develop a middle-ground approach:

(a) the ANC and EFRAG members viewed the use of disclosure objectives as helpful. These members supported requiring compliance with specific disclosure objectives and mandatory items of information. However, they questioned the need for overall disclosure objectives as they said the overarching requirements in IAS 1 *Presentation of Financial Statements* were enough to require entities to disclose material information that is not explicitly required by other IFRS Accounting Standards. Both members suggested the IASB use prescriptive language when referring to items of information.

(b) the ARD, ASCG and UKEB members said a middle-ground approach could strike a balance between providing comparable information, while allowing entities to provide entity-specific information. The UKEB member suggested having mandatory items of information that would help entities with 'simple business models' to meet the specific disclosure objectives.

(c) the ARD and GLASS member supported a middle-ground approach after considering its costs and benefits. However, the GLASS member acknowledged that such an approach, on its own, would not resolve the disclosure problem.

67. Conversely, the AcSB, AOSSG and KASB members disagreed with a middle-ground approach, arguing that a middle-ground approach would not effectively solve the disclosure problem. The AcSB member said that, although AcSB supported the use of disclosure objectives, mandatory items of information may not help shift behaviours away from the checklist approach. The member suggested the IASB clearly articulate what it would achieve through the middle-ground approach. Furthermore, the KASB member viewed the disclosure problem as a combination of various factors, which a middle-ground approach alone cannot resolve. These members said the IASB should develop further guidance on making materiality judgements about disclosures.

68. The ASBJ member suggested the IASB explain in an IFRS Accounting Standard how the information needs of users were considered in developing disclosure objectives

and how mandatory items of information are connected to those disclosure objectives. Such explanations would help entities make materiality judgements.

69. The AOSSG member expressed concerns about including a cross-reference to paragraph 31 of IAS 1 at the beginning of the disclosure section of each IFRS Accounting Standard. The member said that including this cross-reference would cause confusion as to how paragraph 31 of IAS 1 would apply to IFRS Accounting Standards that do not include such a cross-reference.

Proposed amendments to IFRS 13 and IAS 19

70. The ANC, AOSSG, ARD, EFRAG and UKEB members said the IASB should not proceed with the proposed amendments to IFRS 13 and IAS 19. Instead, these members suggested the IASB apply the proposed approach prospectively when developing new IFRS Accounting Standards:

   (a) the ANC, EFRAG and UKEB members said that, based on the results of preparer fieldwork conducted during the consultation period of the Exposure Draft, applying the proposals would not result in a significant change in the information provided by entities applying IFRS 13 and IAS 19.

   (b) the ANC member said nearly half of the respondents who commented on the Exposure Draft did not comment specifically on the proposed amendments to IFRS 13 and IAS 19, which may indicate a limited interest among stakeholders to proceed with the proposed amendments. The member added that the IASB has already devoted a lot of time and resources to the package of Disclosure Initiative projects to help address the disclosure problem, and therefore, should allocate its resources to other projects on its work plan.

   (c) the ARD and UKEB members said the IASB should decide the direction of the project first, before considering the proposed amendments to IFRS 13 and IAS 19.

71. If the IASB decides not to proceed with the proposed amendments to IFRS 13 and IAS 19, the ANC member suggested the IASB publish a feedback statement that

could help entities apply some of the thought process in the disclosure proposals when applying the current disclosure requirements in IFRS 13 and IAS 19.

72. Conversely, the AcSB, ASBJ, ASCG and GLASS members said the IASB should proceed with amending IFRS 13 and IAS 19:

(a) the AcSB member said the current disclosure requirements in IAS 19 are unpopular with both users and preparers;

(b) the ASBJ member said some of the proposed disclosure requirements in IFRS 13 and IAS 19 would result in entities providing useful information to users;

(c) the ASCG member said finalising the proposed amendments to IFRS 13 and IAS 19 would provide a framework that might be useful when the IASB undertakes major new projects in the future; and

(d) the GLASS member said the proposed amendments to IFRS 13 regarding Level 2 fair value measurements that are closer to Level 3 would result in useful information.

Digital reporting

73. The AcSB, ANC, ASCG, EFRAG and FASB members said digital reporting is changing the way financial information is being used and, therefore, the IASB should continue to monitor the developments in digital reporting closely. The AcSB member added that developments in climate and sustainability reporting highlight the importance of digital reporting.

74. The ANC member said the disclosure problem was acute when this project was initiated. However, as the project has progressed, developments in digital reporting mean that users can extract the information they need more easily. Therefore, the disclosure problem is now less severe.

Other comments

75. The AcSB and FASB members:

(a) highlighted the limits of standard-setters' ability to address the disclosure problem, especially when different stakeholder groups have different views about individual aspects of the disclosure problem. The FASB member said auditors are often unwilling to move away from the use of checklists and, if the IASB decides not to prescribe items of information, auditors or regulators are likely to develop their own checklists.

(b) expressed concern about the ability of small and medium-sized entities to make the materiality judgements required by the proposals. The AcSB member said the IASB should continue to carry out education and monitoring activities to ensure a shift in behaviours, particularly among small and medium-sized entities, if the IASB decides to finalise the proposed approach.

76. The ARD and KASB members highlighted the importance of guidance or illustrative examples for their stakeholders. The KASB member suggested including disclosure objectives in the bases for conclusions on the Accounting Standards, as well as guidance or illustrative examples to help entities decide what information is material and should be disclosed.

Primary Financial Statements

77. The purpose of this session was:

(a) to provide an overview of the proposed topics and timing for targeted outreach (paragraphs 78–79);

(b) to update ASAF members on the current status of the redeliberations relating to the disclosure of operating expenses by nature in the notes and seek advice on next steps being explored (paragraphs 80–88); and

(c) to seek advice from ASAF members on the IASB's recent discussions on, and proposed direction for, income and expenses with limited recurrence (unusual income and expenses) (paragraphs 89–102).

Targeted outreach

78. ASAF members offered to conduct targeted outreach in their jurisdictions, between September and November, and agreed that hosting round-table discussions would be an effective approach. The staff clarified that the targeted outreach will not require entities to recast their statement of profit or loss as requested in the fieldwork carried out in 2020.

79. ASAF members agreed with the proposed topics for targeted outreach and suggested some additional topics (for example, the reconciliation for management performance measures). These topics include proposals that have not changed from the Exposure Draft *General Presentation and Disclosures* and therefore will not be covered in the targeted outreach.

Disclosure of operating expenses by nature in the notes

80. ASAF members provided their views on:

    (a) a potential requirement to disclose, for depreciation, amortisation, and employee benefits, the amounts included in each line item in the statement of profit or loss; and

    (b) a requirement that would capture either a limited number of additional expense items or all operating expenses an entity discloses.

81. The ANC, AOSSG, KASB and UKEB members agreed that a disclosure requirement that would capture depreciation, amortisation and employee benefits would be helpful and suggested to continue to explore the implications of this potential disclosure requirement and any disaggregation needed.

82. The AcSB member said that in Canada there was less user demand for information on expenses by nature due to entities being able to use a mixed presentation that the IASB has tentatively decided not to prohibit.

83. The AcSB, AOSSG and UKEB members suggested that targeted outreach would help the IASB better understand the costs, benefits and challenges of requiring an entity to disclose, for all operating expenses disclosed, the amounts included in each line item in the statement of profit or loss.

84. The ARD member reported that stakeholders had different views on the disclosure requirement for operating expenses by nature. Some stakeholders suggested providing the option of voluntary disclosure in this regard. Some stakeholders questioned whether employee share-based payments would be included in employee benefits.

85. The EFRAG member said users and preparers were generally supportive of a disclosure requirement for depreciation, amortisation, and employee benefits and that users are also interested in:

(a) having information on impairment; and

(b) understanding whether costs are fixed or variable in nature or recurring or non-recurring.

86. The ASCG member said some stakeholders were not supportive of an approach that would capture more expense items than depreciation, amortisation and employee benefits. The member questioned whether a disclosure requirement that would capture all operating expenses disclosed would provide users with additional useful information beyond that given by the indirect method of the statement of cash flows.

87. The ASBJ, ASCG and UKEB members said they would like to understand better the objective of additional disclosure requirements for operating expenses.

88. The FASB member said:

(a) the FASB will continue to monitor this aspect of the project due to the similarities to the FASB's project 'Disaggregation—income statement expenses'.

(b) the FASB was surprised that preparers said it would be feasible to disclose, for depreciation, amortisation, and employee benefits, the amounts included in each line item in the statement of profit or loss because preparers in the US had indicated that differentiating between costs incurred and expenses recognised would be challenging.

(c) expenses such as labour, overhead or depreciation might lose their 'nature' when they are capitalised into inventory. For example, write-downs of inventories could be seen both as having a 'nature' of their own or as being capitalised cost of labour, overhead and depreciation that are subject to a write-down.

Income and expenses with limited recurrence ('unusual income and expenses')

89. ASAF members provided their views on:

(a) the way forward in defining income and expenses of limited recurrence ('unusual income and expenses'), based on three examples of income and expenses that are classified as 'unusual' based on the working definition of income and expenses of limited recurrence;

(b) possible constraints to the working definition; and

(c) the assessment period that entities would need to consider while classifying items of income and expenses as 'unusual'.

Defining 'unusual income and expenses'

90. The AcSB, ANC and EFRAG members said the IASB should develop a definition that only captures items, such as restructuring expenses. A broad definition would be difficult to implement and may not result in useful information for users. The ANC member suggested the IASB reinstate the label of 'unusual income and expenses'.

91. The ANC member also raised concerns about the legal implications of determining the classification of 'unusual income and expenses' based on forward-looking information.

92. The ARD member suggested the IASB develop a principle-based requirement that allows jurisdictions the discretion to determine unusual income and expenses based on laws and regulations in their respective jurisdictions. The PAFA member said that unusual income and expenses should be non-recurrent in nature and that classifying an item as non-recurrent would depend on entity specific circumstances.

93. The GLASS member asked the IASB to provide guidance on how an entity should consider the effect of inflation in determining whether income and expenses are 'unusual income and expenses'.

94. The ASBJ member suggested the IASB not proceed with developing a definition of unusual income and expenses and require entities to follow the disaggregation principles when disclosing information with respect to 'unusual income and expenses'.

Possible constraints to the working definition

Comparison with past income and expenses

95. The ANC, AOSSG, KASB and EFRAG members said the IASB should require entities to do a comparison with past income and expenses when identifying 'unusual income and expenses'. The ARD member said ARD stakeholders have different views on comparisons with the past, but if a comparison with the past is not introduced, the definition would not be objective. The ANC member said a comparison with the past would help entities to provide evidence supporting their judgement and address the concerns about auditability.

Exclusion of items that are 'unusual' only by amount

96. The ANC, AOSSG, EFRAG and KASB members said the IASB should limit the definition to include income and expenses that are only unusual by their type because excluding income and expenses that are only unusual by their amount will make the definition clearer and easier to apply.

Sufficient objective evidence of future events

97. The ARD member said there are mixed views amongst ARD stakeholders on whether the assessment of 'unusual income and expenses' should be based on future events for which there is sufficient objective evidence.

98. The KASB member said it would be subjective to assess if future events are supported by sufficient objective evidence.

Assessment period

99. The AcSB, ASBJ, ASCG, EFRAG and KASB members said the assessment period should be based on entities' business models and rely on approved budgets and forecasts. The AcSB member added that if an entity does not have the required information for the assessment period set by the IASB, then the disclosure would not provide useful information. The IASB should provide guidance for entities to determine the assessment period and require that the assessment period used be disclosed.

100. The AOSSG member suggested the IASB consider setting up a working group consisting of users and preparers to understand their individual needs and concerns to arrive at a consensus on the assessment period.

101. The ARD member said stakeholders have different views about the assessment period. Most stakeholders prefer flexibility, while some stakeholders suggested an assessment period of one year, two years or two to four years. Some stakeholders suggested that, even if the IASB requires a set assessment period, it should still allow some flexibility to entities subject to additional disclosure requirements. The member suggested the IASB conduct more outreach with users and preparers before making decisions on the assessment period.

102. The GLASS member suggested considering jurisdictions with climate conditions that change every seven to eight years when determining the assessment period.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

103. The objective of this session was to ask ASAF members for feedback on the interaction between local regulations and the proposed IFRS Accounting Standard (draft Standard) set out in the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures.*

Interaction between local regulations and the draft Standard

104. The ANC, AOSSG, EFRAG, PAFA and UKEB members shared concerns on how terms used to define the scope of the draft Standard interact with local regulations:

(a) the ANC and UKEB members said the term 'public accountability' is not used in their jurisdictions, which may result in challenges in endorsing the Standard. The ANC, EFRAG and UKEB members added that the definition of 'public accountability' in the draft Standard differs from the definition of a 'public interest entity' (PIE), which is the term used in their jurisdictions to prescribe the financial reporting framework. According to the ANC member, local regulators may prefer to use PIE because the term is understood within EU member states. However, the ANC member also noted that EU member states amended the definition of a PIE differently. In contrast, the AcSB member said the IASB should be cautious about making amendments to the term 'public accountability', which is an established term in some jurisdictions.

(b) the AOSSG and PAFA members said the term 'available for public use', used in the draft Standard to define the scope of subsidiaries that would be eligible to apply the Standard should be clarified.

(c) the ANC member said there is ambiguity in the term 'fiduciary capacity' used in determining the scope of the draft Standard despite the clarifications that the IASB is proposing.

105. The AOSSG, ARD, EFRAG and KASB members provided feedback on the implications of their preliminary cost–benefit analysis of applying the Standard, were it to be finalised in its current form, in their respective jurisdictions:

(a) the AOSSG member said that, in one AOSSG jurisdiction, local regulators may continue to require subsidiaries to apply all disclosures required by IFRS Accounting Standards. Similarly, feedback from two other AOSSG jurisdictions indicated a preference for subsidiaries in their jurisdictions to continue providing all disclosures required by IFRS Accounting Standards.

(b) the ARD member raised a concern that a subsidiary electing to apply the Standard would not thereby reduce its costs because the subsidiary would still provide information for its parent's consolidated financial statements.

(c) the EFRAG member said the endorsement of the Standard in the EU would be driven by cost–benefit considerations.

(d) the KASB member said many entities without public accountability in Korea apply IFRS Accounting Standards. The member questioned if the benefits of applying the Standard would outweigh the costs for these entities. Furthermore, if the benefits did outweigh the costs, the member questioned why the scope of the Standard was restricted. The IASB staff said the objective of the project was focused on subsidiaries that apply a local GAAP and report to a parent applying IFRS Accounting Standards and the application of the Standard would permit these subsidiaries to maintain only one set of accounting records.

106. The AOSSG member also said two AOSSG jurisdictions have a local reduced-disclosure framework for entities without public accountability. Therefore, adoption of the draft Standard in these jurisdictions would introduce complexity to their current financial reporting framework. The UKEB member said that, although a local reduced-disclosure framework is also available in the UK and the Republic of Ireland, the adoption of the draft Standard would be beneficial to UK entities with subsidiaries in other jurisdictions.

107. On other possible challenges that may arise in endorsing the Standard, were it to be finalised in its current form:

(a) the KASB member said the Korean regulator may restrict its application to avoid the confusion that would arise from a third financial reporting framework.

(b) the UKEB member said there may be challenges in applying requirements in the Standard when a jurisdiction has carved out some requirements in IFRS Accounting Standards, or not endorsed an IFRS Accounting Standard. For example, the draft Standard includes proposed reduced disclosure requirements for IFRS 14 *Regulatory Deferral Accounts,* but IFRS 14 has not been adopted in the UK.

(c) the ASCG member identified possible complexities in endorsing the Standard from a legal perspective in Germany because the scope of the draft Standard excludes other entities without public accountability.

108. The AOSSG member said two AOSSG jurisdictions did not identify any significant challenge that may arise from endorsing the Standard, were it to be finalised in its current form, in their respective jurisdictions. Three other AOSSG jurisdictions shared the same view, provided that the Standard remained optional when finalised. The AcSB member said there were no significant challenges identified in endorsing the draft Standard in Canada.

109. The AOSSG member suggested the basis for conclusions on the Standard clarify that eligible subsidiaries that do not apply the draft Standard would not be in breach of their IFRS compliance status (for example, if a regulator did not permit application of the Standard).

Scope of the draft Standard

110. Some ASAF members expressed concerns about the IASB's tentative decision to retain the scope of the draft Standard. The AcSB, ASBJ, ASCG and GLASS members said the scope should be widened to all entities without public accountability. The AOSSG member reported mixed views among AOSSG jurisdictions.

Second Comprehensive Review of the *IFRS for SMEs* Accounting Standards

111. The purpose of this session was to provide ASAF members with:

    (a) an update on the IASB's Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard; and

    (b) an overview of the IASB's forthcoming Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft).

IASB's proposals in its forthcoming Exposure Draft

112. The GLASS member conveyed feedback from stakeholders on:

    (a) the importance of permitting both capitalisation of borrowing costs as part of an asset and recognising development costs as an asset in the *IFRS for SMEs* Accounting Standard, noting that the requirement in the Standard to expense borrowing costs and development costs is a departure from full IFRS Accounting Standards;

    (b) the complexity that may arise from introducing an expected credit loss model in the *IFRS for SMEs* Accounting Standard for financial assets; and

    (c) the removal of the accounting policy option for investments in subsidiaries when an entity prepares separate financial statements to reduce complexity in applying the *IFRS for SMEs* Accounting Standard.

113. The UKEB member acknowledged the simplifications to the concepts and language in full IFRS Accounting Standards to be proposed for the *IFRS for SMEs* Accounting Standard and suggested the IASB consider whether some of these simplifications might be beneficial in full IFRS Accounting Standards.

114. The AOSSG member suggested the IASB:

(a) clarify the relationship between the *IFRS for SMEs* Accounting Standard and the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*; and

(b) update the guidance for micro-sized entities considering the extensive revisions being proposed to the *IFRS for SMEs* Accounting Standard.

115. The ASCG member said the *IFRS for SMEs* Accounting Standard could be integrated into the IFRS Accounting Standard to facilitate its application.

Agenda planning and feedback from previous ASAF meetings

116. The purpose of this session was to discuss the proposed topics for the next ASAF meeting, which is scheduled to take place on 29 September 2022. ASAF members agreed with the proposed topics.

117. The UKEB member said the UKEB is willing to present its research paper on subsequent measurement of goodwill.

118. The EFRAG member suggested discussing feedback to the IASB's Request for Information *Post-implementation Review of IFRS 9—Classification and Measurement* on equity instruments and other comprehensive income.